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7 Z&L PROPERTIES, INC.

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10 UNITED STATES DISTRICT COURT
11 NORTHERN DISTRICT OF CALIFORNIA
12 SAN FRANCISCO DIVISION

13 UNITED STATES OF AMERICA,) NO. 23-cr-00221 WHO
14)
15 Plaintiff,) DEFENDANT'S RESPONSE TO THE
16 v.) GOVERNMENT'S STATUS REPORT IN
17 Z&L PROPERTIES, INC.,) RE: Z&L CORPORATE COMPLIANCE
18 Defendant.) PROGRAM (ECF NO. 20)
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1 Z&L Properties, Inc. seeks to provide additional context for the 188 West St. James
 2 property litigation, *FPP MB, LLC v. Jennifer Lewis*, including the consolidated cases, Case
 3 Nos. 24CV433325, 24CV435600, 24CV435249, and 24CV435042 pending in California State
 4 Court, County of Santa Clara (“Santa Clara Litigation”), referenced in the government’s report
 5 (ECF No. 20 (“Government Report”) at 5.)

6 First, as discussed at the October 2023 sentencing in this case, the issues raised in the FPP
 7 lawsuit are HOA disputes, not evidence of criminal corporate misconduct. The court’s findings
 8 detail a contentious relationship between FPP directors and homeowner-backed directors, resulting
 9 in dueling HOA boards and conflicting property management decisions. Such disputes are not
 10 uncommon in HOA governance. The conduct at issue is not related to the conduct that gave rise to
 11 Z&L Properties, Inc. plea agreement. In fact, the court in the Santa Clara Litigation found that
 12 “[t]he evidence was that the conduct for which Z&L was convicted involved a property in San
 13 Francisco and did not involve the 188 West St. James property or its Association.” See *FPP MB,*
 14 *LLC v. Jennifer Lewis et al.*, Case No. 24CV433325, Santa Clara Superior Court (September 16,
 15 2024 Order) at 13-14.

16 Second, the court’s findings primarily focused on actions and resulting disputes that
 17 occurred before Z&L Properties, Inc.’s October 2023 sentencing. Findings related to conduct
 18 occurring before the implementation of its compliance program should not impact the assessment
 19 of Z&L Properties, Inc. commitment to adhering to its Code of Conduct and the strength of its
 20 current compliance program. It is not reflective of Z&L Properties, Inc.’s current corporate culture,
 21 its compliance with the plea agreement, and its ability to continue to comply with the plea
 22 agreement here.

23 Third, the court’s findings primarily concerned a separate entity, FPP MB, LLC and its
 24 directors, and not Z&L Properties, Inc. While they are part of the same corporate family structure,
 25 these are separate legal entities.

26 Fourth, the government notes it is concerned about the finding that Z&L Properties, Inc.
 27 has been unable to pay its assessments. Z&L Properties, Inc. notes that it, along with the owner of
 28 188 West St. James are experiencing financial difficulties due in large part to challenges in selling

1 the individual units at the 188 West St. James property and its inability to find a buyer for the entire
2 property. Z&L Properties, Inc. has been unable to pay the HOA fees and assessments for all the
3 unsold properties it currently owns in this building. But this is not an example of a defective
4 compliance culture. Rather, it reflects the realities of the current real estate market. Z&L Properties,
5 Inc. is diligently pursuing funding to help it meet its financial obligations.

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7 The Government Report has found that Z&L Properties, Inc. has complied with all terms
8 of the plea agreement. This includes revising and creating new policies and procedures, training,
9 and using forensic accountants from Crowe LLP to review and test its policies, procedures, and
10 selected transactions. Z&L Properties, Inc. as well as Woodford Properties, Inc. remain committed
11 to continue these efforts to continually strength and bolster their compliance programs in the future.

12 Date: October 21, 2024

Respectfully submitted,

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14 By: /s/ Emily Reitmeier Haffner
Emily Reitmeier Haffner
15 Attorney for Defendant Z&L Properties, Inc.
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